

FDIC



## FDIC Financial Education Curriculum



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## Getting Started



Use this guide to help you teach this module in an informative, engaging, and effective manner.

You can customize the information in *Money Smart* to meet the needs of your audience. The layering table beginning on page 4 can help you choose the most relevant module sections. However, it is usually a good idea to include:

- **Introductions.** Allows you to “break the ice,” create active instructor-participant dialogue, and set the tone for the session.
- **Agenda and Ground Rules.** Helps participants understand the subject matter and how the class will be conducted.
- **Expectations.** Gives participants the opportunity to tell you what they expect and want to learn from the module.
- **Objectives.** Helps participants place the information to be learned in the proper context and ensures that the content is consistent with their expectations.
- **Explanation of Participant’s Guide Format and Contents.** Serves to keep participants on track with the instructor.
- **What Do You Know? Form and/or Pre-Test.** Helps you and participants determine what they already know or do not know so you can customize the presentation accordingly.
- **Module Content and Activities.** Helps participants to reinforce learning.
- **What Do You Know? Form and/or Post-Test.** Helps you and participants gauge how well they learned the content, what content to review, if any, and what additional materials participants may want to review on their own.

## Module 8: Charge It Right Layering Table

Please read the Layering Table Instructions in the <a href="#">Guide to Presenting Money Smart for Adults</a> .				
Pages	Time (Min.)	Topic	Subtopic & Activities	Target Audiences
7-9	5	Checking In	<ul style="list-style-type: none"> <li>Introduction of instructor and the materials</li> </ul>	<ul style="list-style-type: none"> <li>Everyone</li> </ul>
10-11, 55	5	Pre-Test and/or What Do You Know?		<ul style="list-style-type: none"> <li>Everyone</li> </ul>
12-13	5	Overview of Credit	<ul style="list-style-type: none"> <li>Defining credit and the importance of credit</li> <li>Credit Case: Buying a Car</li> </ul>	<ul style="list-style-type: none"> <li>Anyone who plans to apply for a credit card</li> </ul>
14-20	10	Credit Cards: What Are They and What Are They For?	<ul style="list-style-type: none"> <li>Credit cards versus debit cards; stored value, rewards, and pre-approved cards; secured, unsecured, gold, and platinum credit cards</li> </ul>	<ul style="list-style-type: none"> <li>Those considering getting a credit card or switching to another card</li> </ul>
21-25	10	Shopping for the Best Deal	<ul style="list-style-type: none"> <li>Solicitation and initial Truth in lending disclosure statement, credit card terms, APR, fees, grace period, balance computation method</li> </ul>	<ul style="list-style-type: none"> <li>Those considering getting a credit card or switching to another card</li> </ul>
26-29	20	What's the Best Card for You?	<ul style="list-style-type: none"> <li>Read and understand the terms, customer service, additional protection, credit card limits, credit card comparison, tips for shopping for a credit card</li> </ul>	<ul style="list-style-type: none"> <li>Those considering getting a credit card or switching to another card</li> </ul>
30-32	10	Applying for a Credit Card	<ul style="list-style-type: none"> <li>Where to apply for a credit card, opting out, application requirements</li> </ul>	<ul style="list-style-type: none"> <li>Those who intend to apply for a credit card</li> </ul>
33-41	10	How Credit Decisions are Made	<ul style="list-style-type: none"> <li>The Four Cs, credit history and reporting, free annual credit report, credit scores, what do if your request for credit is denied</li> </ul>	<ul style="list-style-type: none"> <li>Anyone who has or plans to get a credit card</li> </ul>
42-44	5	The Credit Card Statement	<ul style="list-style-type: none"> <li>Credit card statement information, recordkeeping</li> </ul>	<ul style="list-style-type: none"> <li>Anyone who has or plans to get a credit card</li> </ul>
45-46	10	Paying Your Credit Card Bill	<ul style="list-style-type: none"> <li>Minimum monthly payments, cost of making the minimum payment, benefits of paying more than the minimum payment</li> </ul>	<ul style="list-style-type: none"> <li>Anyone who has or plans to get a credit card</li> </ul>
47-51	20	Using Your Credit Card Responsibly	<ul style="list-style-type: none"> <li>Using your credit card responsibly, correcting credit card problems, what to do if your card is lost or stolen</li> <li>Activity 1: Houston, We Might Have Issues</li> </ul>	<ul style="list-style-type: none"> <li>Anyone who has or plans to get a credit card</li> </ul>
52	5	Wrap-Up		<ul style="list-style-type: none"> <li>Everyone</li> </ul>
53-55	5	Post-Test and/or What Do You Know?		<ul style="list-style-type: none"> <li>Everyone</li> </ul>
56-57	5	Evaluation		<ul style="list-style-type: none"> <li>Everyone</li> </ul>

## Icons Guide

The following icons may be used throughout the Instructor Guide to indicate activity type.



### Presentation

Present information or demonstrate an idea.



### Review

Refer participants to and summarize material provided in the Participant Guide.



### Activity

Guide participants through an activity to support their learning.



### Assessment

Direct participants to take a short test.



### Discussion

Facilitate a discussion about a topic as directed.



### Ask a Question

Present a problem or question for discussion.

# Module Overview

## Purpose

The *Charge It Right* module teaches participants about credit cards, their benefits, how to use them responsibly, and what to do when a credit card is lost or stolen.

## Objectives

After completing this module, the participants will be able to:

- Define credit
- Explain why credit is important
- Identify the factors creditors look for when making credit decisions
- Describe the purpose of credit cards
- Determine if they are ready to apply for a credit card
- Determine which credit card is best suited for them
- Describe how to use a credit card responsibly
- Identify the steps to take when a credit card is lost or stolen

## Presentation Time

Each topic has an approximate completion time listed in the *Charge It Right* Layering Table. Use the suggested times to personalize the module based on your participants' needs and the given time period. Allow extra time for activities and questions when teaching a larger group.

Completing the entire presentation may take two or more hours. The class can be divided into two sessions taught on different days if this is more convenient for participants.

## Materials and Equipment

The materials and equipment needed to present all of the *FDIC Money Smart: A Financial Education Curriculum* modules are listed in the *Guide to Presenting the Money Smart Program*. Review the guide thoroughly before presenting this module.

## Module Activities

- Activity 1: Houston, We Might Have Issues

## Instructor Notes

## Presentation

5 minutes



Slide 2

*Record participants' expectations, questions, and concerns on chart paper. If there is anything you will not teach, tell participants where the information can be obtained (e.g., another module, a website). Check off their responses at the end of the training to show the lesson content met their expectations.*

## Checking In

## Welcome

Welcome to *Charge It Right!* You are taking an important step toward understanding the value of credit cards by taking this module. To use credit to your financial advantage you must recognize:

- How and when to apply for a credit card
- How credit cards work
- How interest is applied to your monthly balance
- How to avoid paying interest
- What to do if you should lose your credit card or have it stolen

## Agenda and Ground Rules

We will discuss concepts, do group and individual activities, and have time for your questions. There will be at least one 10-minute break during the class.

If you have experience or knowledge in some aspect of the material, please share your ideas with the class. One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some pitfall to avoid. Your contribution to the class will make the learning experience that much better. If something is not clear, please ask questions!

## Introductions

Before we get started, I will share a little about myself and I would like to know a little bit about you.

*[Introduce yourself and share a little of your background and experience.]*

As you introduce yourself, state:

- Your expectations
- Questions and/or concerns about the training content

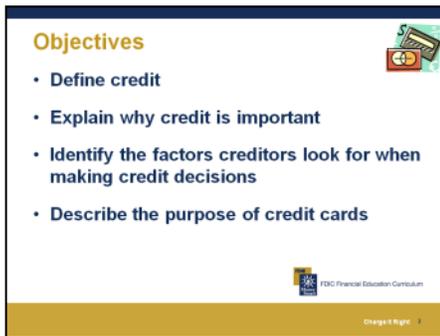
## Instructor Notes

## Presentation

## Objectives

After completing this module, you will be able to:

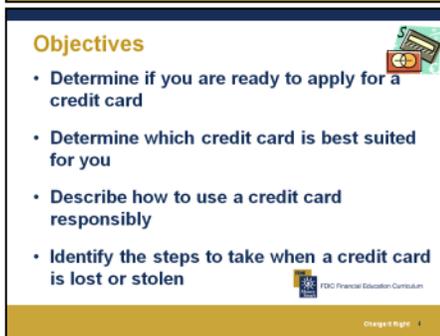
- Define credit
- Explain why credit is important
- Identify the factors creditors look for when making credit decisions
- Describe the purpose of credit cards
- Determine if you are ready to apply for a credit card
- Determine which credit card is best suited for you
- Describe how to use a credit card responsibly
- Identify the steps to take when a credit card is lost or stolen



**Objectives**

- Define credit
- Explain why credit is important
- Identify the factors creditors look for when making credit decisions
- Describe the purpose of credit cards

TDC Financial Education Curriculum  
Charge It Right



**Objectives**

- Determine if you are ready to apply for a credit card
- Determine which credit card is best suited for you
- Describe how to use a credit card responsibly
- Identify the steps to take when a credit card is lost or stolen

TDC Financial Education Curriculum  
Charge It Right

Slides 3–4



Review Participant Guide contents and organization with participants.

## Participant Materials

Each of you has a copy of the *Charge It Right* Participant Guide. It contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip
- A glossary of the terms used in this module

What questions do you have about the module overview?

## What Do You Know?

Before we begin, let us see what you know about credit cards.

*[If using the What Do You Know? form]*

The What Do You Know? form on page 27 of your Participant Guide lets you measure how much you know before the training and how much you learned after the training. Please take a few minutes now to complete the “Before the Training” column.

Which statements did you answer with “disagree” or “strongly disagree”?



**What Do You Know?**

What do you know or want to learn about credit cards?

TDC Financial Education Curriculum  
Charge It Right

Slide 5

**Instructor Notes**

*Use the What Do You Know? form and/or the Pre-Test to gauge participants' prior knowledge of the content and customize your presentation, focusing on content with which they are least familiar.*

**Presentation**

*[Note: If time is limited, make sure you cover these content areas.]*

We will complete the second column when we finish the training.

***[If using the Pre-Test]***

Take a few minutes to complete the Pre-Test on pages 4 and 5 of your Participant Guide.

Which questions were you unable or unsure of how to answer? *[Note: If time is limited, make sure you cover these content areas.]*

As we progress through the module and cover the related material, you will be able to determine whether you answered each question correctly.

## Pre-Test

Test your knowledge about credit cards before you go through the course.

1. Select all that apply. **Credit** is:
  - a. Money given to you that you do not have to pay back
  - b. Money you borrow to pay for things, but must pay back with interest**
  - c. Safer and more convenient than carrying cash**
  - d. Money you have saved for larger purchases
2. Having a credit card and good credit provides many benefits. They include all of the following EXCEPT:
  - a. You can make large purchases and pay for them over time
  - b. It may be easier for you to obtain employment or purchase a home
  - c. They can be useful in times of emergencies
  - d. You pay interest charges on any balance you carry on your credit card**
3. You should consider which of the following when determining if you are ready for a credit card? Select all that apply.
  - a. Whether you can afford the monthly payments**
  - b. Which credit card has the lowest introductory rate
  - c. What you will purchase with the credit card (needs versus wants)**
  - d. How much you will pay for items when paying interest versus saving and paying with cash**
4. Before applying for a credit card, the most important thing to read is the:
  - a. Truth in Lending Disclosure for the credit card**
  - b. Financial institution's lending policy statement
  - c. Credit card perks or reward systems
  - d. Monthly credit card statement
5. When you want to apply for a credit card, you should:
  - a. Apply for the first offer you receive or find
  - b. Apply for retail store cards only
  - c. Compare several cards and choose the one that seems best for you**
  - d. Apply for credit cards with the lowest introductory rates
6. Factors that credit card issuers take into account when deciding whether to issue you a credit card include:
  - a. Credit history
  - b. Income
  - c. Current debt
  - d. All of these**

7. If the Annual Percentage Rate (APR) increases on your credit card, what will happen to your credit card payment?
  - a. **It will also increase**
  - b. It decreases, since the credit card company pays a higher percentage of the payment
  - c. It stays the same, but you have to pay over a longer time
  - d. It stays the same, but your credit limit is reduced
  
8. What is the first step you should take if your credit card is lost or stolen?
  - a. Review your statement to see if any purchases were made by someone other than yourself
  - b. File a police report
  - c. **Call the credit card company immediately to report the lost or stolen card**
  - d. Have a new card issued
  
9. Which of the following accurately describes credit cards?
  - a. They always allow you to make unlimited number of purchases with no set dollar limit
  - b. **They are used to purchase goods and services and pay for them over time**
  - c. You must always pay the balance in full each month
  - d. When you purchase items, the money is withdrawn from your checking account
  
10. How can you reduce the interest you pay on a credit card and the time to pay off the debt?
  - a. Failing to make the minimum payment
  - b. Pay more than the minimum payment
  - c. Pay the minimum payment
  - d. Pay off the balance in full each month
  - e. **b and d**

## Instructor Notes

## Presentation

## 5 minutes



Have participants respond to the first question by a show of hands. Ask participants to share their experiences.

**What Is Credit?**  
If you ask a financial professional what "credit" is, which of these would this person choose?

1. Money given to you that you do not have to pay back
2. Money you borrow to pay for things but must also pay back
3. Recognition for a job well-done
4. Long, scrolling text at the end of a movie

FDIC Financial Education Curriculum  
Pay Yourself First

Slide 6

Ask participants to select an answer. Then click the space bar, right arrow, or mouse to reveal the correct answer.

**Credit Defined**

- **Credit:** the ability to borrow money
- **Loan:** agreement to borrow money on credit
- **Collateral or Guarantee:** security, or asset, you pledge to the lender in case you cannot repay the loan
- **Interest:** the cost of borrowing money

FDIC Financial Education Curriculum  
Charge It Right

Slide 7

## Overview of Credit

## Credit Defined

How many of you have ever borrowed money from a bank, credit union, or thrift? What was the experience like?

If you ask a financial professional what credit is, which of these would she choose?

1. Money given to you that you do not have to pay back
2. **Money you borrow to pay for things but must also pay back**
3. Recognition for a job well done
4. That long scrolling text at the end of a movie

*Credit* is the ability to borrow money. When you borrow money on credit you receive a *loan*, which is often secured by *collateral* or a *guarantee*.

Lenders take a risk to lend you money. Therefore, they want to be sure that their money is secure.

- Collateral is security you provide the lender.
- Giving the lender collateral means that you pledge an asset you own (e.g., your car or home) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan. In other words, if you do not repay then the loan the credit card company is entitled to the collateral.

You make a promise to pay back the money you borrowed plus *interest*, which is an extra amount of money a financial institution charges for letting you use its money. *Fees* are an additional cost of borrowing money.

The type of credit we will talk about in this course is *personal* or *consumer credit*. Credit for business or commercial purposes is not covered in this course.

## Instructor Notes

## Presentation

**Importance of Credit**

Why do you think credit is important?

- **Credit:**
  - Can be useful in times of emergencies
  - Is more convenient and safer than carrying large amounts of cash
  - Allows you to make a large purchase, such as a car or house, and pay for it over time
  - Can affect your ability to obtain a job, buy or rent a house, or obtain insurance



Charge It Right

Slide 8

Write participants' responses on chart paper. Then click the mouse, space bar, or right arrow to reveal the points.

**Good Credit**

- **Having good credit means:**
  - You make your loan payments on time.
  - It will be easier to borrow money in the future.
- **If you have problems using credit responsibly, it will be harder to borrow money in the future.**




Charge It Right

Slide 9

**Credit Case: Buying a Car**

- **Steve and Maria need another car. They have some money to put down on a new car, but they still need to borrow about \$10,000 to purchase it.**
- **If they do not (or cannot) pay back the loan, what might the lender do?**




Charge It Right

Slide 10

Complete the activity as a class or have participants work in groups. Discuss participants' responses and the correct answer. Answer any questions. Then introduce the next topic.

## Why is Credit Important?

Why do you think credit is important?

Credit:

- Can be useful in times of emergencies
- Is more convenient and safer than carrying large amounts of cash
- Allows you to make a large purchase (e.g., car or house), and pay for it over time
- Can affect your ability to obtain a job, buy or rent a house, or obtain insurance

You have probably heard the term “good credit.” It means you:

- Make your loan payments on time to repay the money you owe
- Have a good credit record, and it will be easier to borrow money in the future

If you use credit carefully, it can be useful to you. If you have problems using credit responsibly, it will be harder to borrow money in the future.

Now turn to Credit Case: Buying a Car on page 6 of your Participant Guide.

## Credit Case: Buying a Car

Steve and Maria need another car. They have some money to put down on a new car, but they still need to borrow about \$10,000 to purchase it. If they do not (or cannot) repay the loan, what might the lender do?

**Answer: The car is collateral for the loan. If Steve and Maria do not or cannot make the payments, the lender will probably repossess the car and resell it to pay for the loan. Steve and Maria should also be careful to pay the loan back on time—late payments will affect their credit history and lenders may not want to loan them money in the future.**

What questions do you have about credit?

Let us discuss what credit cards are and what options you have when choosing a credit card.

## Instructor Notes

## Presentation

10 minutes



Have participants respond with a show of hands. Guide a brief discussion to assess participants' experiences.

**What Is a Credit Card?**

- **Credit cards** are a revolving line of credit with:
  - Pre-approved dollar limit
  - Minimum monthly payment
    - E.g., \$15 for a \$600 balance
- **Charge cards** require you to pay the entire balance every month
- **Debit cards** are tied to a checking account

FDIC Financial Education Curriculum

Charge It Right 11

Slide 11



Refer participants to *Credit Cards Versus Debit Cards* on page 7 of their *Participant Guide*.

## Credit Cards: What Are They Used For?

## What is a Credit Card?

How many of you have a credit card? What has been your experience with a credit card?

*Credit cards* are a convenient form of:

- Borrowing money to purchase goods and services
- Receiving a *revolving line of credit*, which means you can make unlimited purchases up to a pre-approved dollar limit (e.g., \$3,000)

You must pay at least a portion of the bill every month. This is called a *minimum payment*. It is often a percentage of your balance. For example, a minimum payment on a \$600 balance might be \$15.

*Charge cards* are used like credit cards, but you must pay the entire balance every month. In this module, we focus on credit cards, not charge cards.

*Debit cards* are similar to credit cards except that they are tied to your checking account.

- When you use them to make a purchase or to withdraw money at an Automated Teller Machine (ATM), the money is immediately taken out of your checking account.
- You need to be sure you have money in your checking account before you use a debit card.

Review the table on page 7 of your *Participant Guide* to learn more about the differences between credit cards and debit cards.

## Instructor Notes

## Presentation

## Credit Cards versus Debit Cards

	Debit Cards	Credit Cards
<i>Payments</i>	<ul style="list-style-type: none"> <li>Buy now, <b>pay now</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Buy now, <b>pay later</b>.</li> </ul>
<i>Interest Charges</i>	<ul style="list-style-type: none"> <li><b>No charges apply</b> as funds are automatically debited from your checking account.</li> </ul>	<ul style="list-style-type: none"> <li><b>Charges will apply</b> if you carry a balance or your card offers no grace period and you incur interest charges.</li> </ul>
<i>Fees</i>	<ul style="list-style-type: none"> <li><b>Fees</b> on certain transactions (e.g., an ATM fee charged for withdrawing funds from an ATM not operated by the bank that issued your debit card).</li> <li>Potentially costly fees if you try to spend more money than available in your account.</li> </ul>	<ul style="list-style-type: none"> <li><b>Fees and penalties</b> can be imposed if payments are not timely.</li> <li><b>Some cards also have annual fees.</b></li> <li><b>Not all cards offer grace periods</b> (time to repay without incurring interest charges).</li> </ul>
<i>Other Potential Benefits</i>	<ul style="list-style-type: none"> <li><b>Easier and faster</b> than writing a check.</li> <li><b>No risk</b> of losing cash that you cannot replace.</li> <li>Some cards may offer <b>freebies or rebates</b>.</li> <li>As long as you do not overdraw your account, debit cards are a good way to pay for purchases without borrowing money and paying interest.</li> </ul>	<ul style="list-style-type: none"> <li><b>Freebies</b> sometimes offered (e.g., cash rebates, bonus points, or travel deals).</li> <li>You can <b>withhold payment</b> on charges in dispute.</li> <li><b>Purchase protections</b> offered by some cards for faulty goods.</li> <li>If you manage your credit card carefully, <b>your credit score may go up</b> and you may qualify for lower interest rates on loans.</li> </ul>
<i>Other Potential Concerns</i>	<ul style="list-style-type: none"> <li>Usually there are <b>no protections</b> against faulty goods and services.</li> <li>You need another way to pay for unexpected emergencies (e.g., car repairs) if you do not have enough money in your bank accounts.</li> </ul>	<ul style="list-style-type: none"> <li><b>Over-spending</b> can occur, since the credit limit may be higher than you can afford.</li> <li>If you do not pay your card balance in full each month, or your card does not have an interest-free grace period, <b>you will pay interest</b>. This can be costly, especially if you only pay at or near the minimum amount due each month.</li> </ul>

Using a credit card generally offers more purchase protections than a debit card. Federal law limits your losses to a maximum of \$50 if your credit card is lost or stolen, although industry practices may further limit your losses.

But, your liability limit for a debit card purchase you did not make is \$50 if you notify the bank within two business days of losing the card or noticing an unauthorized transaction, and could be up to \$500 or even more if you wait longer. Banks generally have up to 10 business days to resolve or provide provisional credit for the amount of an alleged transaction error.

## Instructor Notes

## Presentation

**Other Cards**

- Stored value cards
- Secured and unsecured credit cards
- Gold and platinum cards
- Reward cards
- Pre-approved cards

**Tips:**

- Read disclosures before you apply
  - Look at fees/penalties
  - Understand your consumer protections
- Take precautions to protect yourself from fraud or theft

Charge It Right

*Slide 12*

*Explain what stored value cards are.*

*Keep this slide up as you continue.*

*Note: the tips listed apply to all types of credit cards.*

## Stored Value Cards

Another type of card to be aware of is stored value cards (also called prepaid cards).

There are four main types of stored value cards:

1. *Payroll cards* are used by an employer to pay wages instead of giving you a paper paycheck. Payroll cards are unique from other types of stored value cards because you do not need to purchase them or pay activation fees since your employer provides the card.
2. *Government disbursement cards* are provided by government agencies to pay benefits. One example is the Direct Express® debit card for Social Security payments.
3. *General Purpose cards* can be purchased from retailers. Some come with a set value, while others require you to “load” (add) money to the card after obtaining it.
4. *Gift cards* can be purchased in fixed amounts. Unlike most other stored value cards, these often can only be redeemed for purchases from particular stores or restaurants.

Stored value cards often have the logo of one of the major payments systems (e.g., American Express, Discover, MasterCard, or Visa) on the card. These branded cards:

- Can be used at any merchant or ATM that accepts cards issued through their respective network
- Enable a cardholder to pay for goods or services; the value on the card goes down with each purchase

Remember, the use of a stored value card will not allow you to build a credit history because no money is being borrowed. While prepaid cards have potential benefits, they also come with potential costs and limitations. How can you wisely choose or use a prepaid card?

### **Look into the fees, which can add up if you are not careful.**

Read all information that comes with the card so you understand which fees are mandatory and which ones you can avoid. Check to see whether you are charged fees for:

- Activating (starting the use of) the card
- Adding money onto the card
- Making purchases (there might be a difference in transactions fees if you sign for the purchase instead of entering your personal

## Instructor Notes

## Presentation

identification number)

- Withdrawing cash (in addition to any fee charged by the company that operates the ATM you use)
- Inquiring about your *balance* (how much money is left to spend)

Some cards will assess a fee if you try to spend more money than is on the card. Do not assume there cannot be overdraft fees with a prepaid card. Just as you would with a checking account, it is a good idea to track your balance, perhaps with a check register, to avoid the risk of overdraft fees or the embarrassment of having a transaction denied.

Inactivity fees on prepaid cards can only be imposed if there has been no transaction for at least 12 months. Prepaid cards also cannot expire for at least five years after the date the card was issued or money was last loaded onto the card.

Avoid looking at prepaid debit cards as permanent substitutes for bank accounts. People who are able to open a traditional bank account and manage it properly can pay less in fees, earn interest, write checks to merchants who do not accept plastic, save more easily for future expenses, and benefit from more federal protections than with certain prepaid cards.

**Understand your consumer protections, which may vary depending on the card you use.**

- Some prepaid cards may not provide the full range of protections afforded under federal consumer protection laws for debit cards associated with your bank account.
- For example, while payroll cards are covered under federal consumer protection regulations governing electronic fund transfers (including disclosure requirements and a limitation on a consumer's liability for errors or unauthorized transactions) these same federal protections may not be available for other types of prepaid cards.
- Cards branded as part of a network may come with their own protections against errors or unauthorized use. Be sure to review the materials you receive with the card for required steps you must take to receive the card issuer's protections (e.g., registering the card and promptly reporting errors).

Also, the Federal Deposit Insurance Corporation (FDIC) has announced that if an employer, government agency, or other organization places money

## Instructor Notes

## Presentation

with an insured institution to hold for people's use with prepaid cards, and the bank holding the money fails, the funds (with some exceptions) will be considered deposits and, therefore, covered by FDIC deposit insurance up to the federal limit. For more information, call the FDIC at **1-877-ASK-FDIC** (1-877-275-3342).

### Take additional precautions to protect yourself from fraud or theft.

- Experts suggest that consumers be wary of any offer to sell you a prepaid card for less than its face value, because it may have been stolen or otherwise obtained improperly.
- When you first receive a card, inspect it for indications of tampering with any protective stickers.
- It is also always important to promptly review your monthly statement (online or on paper) to check for errors or fraud.

## Secured and Unsecured Credit Cards

Most credit cards are *unsecured*.

- This means you do not have to provide collateral in order to get a credit card.
- You might want to consider a secured credit card if you have no credit history or have had credit problems in the past.

To obtain a *secured* card, you generally need to pledge a bank savings account as collateral.

- This means the bank holds the savings account as security for repayment. For example, if you want a credit card with a \$500 limit, the bank might require you to keep \$500 in a bank savings account. You will not be able to withdraw money from that account. The bank can use that \$500 if you are unable to pay your credit card bill.
- Some banks might require more or less than the credit card limit as collateral to secure the card.
- Be sure to look carefully at all fees you have to pay to get and maintain a secured card. If the fees seem high to you, shop around for a better deal.

**Other Cards**

- Stored value cards
- Secured and unsecured credit cards
- Gold and platinum cards
- Reward cards
- Pre-approved cards

**Tips:**

- Read disclosures before you apply
  - Look at fees/penalties
  - Understand your consumer protections
- Take precautions to protect yourself from fraud or theft

Charge It Right 12

Slide 12

Click the space bar, right arrow, or mouse to display secured and unsecured credit cards.

## Instructor Notes

## Presentation

## Gold and Platinum Cards

Other Cards	
<ul style="list-style-type: none"> <li>• Stored value cards</li> <li>• Secured and unsecured credit cards</li> <li>• Gold and platinum cards</li> <li>• Reward cards</li> <li>• Pre-approved cards</li> </ul>	<b>Tips:</b> <ul style="list-style-type: none"> <li>• Read disclosures before you apply               <ul style="list-style-type: none"> <li>– Look at fees/penalties</li> <li>– Understand your consumer protections</li> </ul> </li> <li>• Take precautions to protect yourself from fraud or theft</li> </ul>

Slide 12

Click the space bar, right arrow, or mouse to display gold/platinum cards.

Gold and platinum credit cards traditionally have had higher credit limits. These types of cards usually require a good credit history and higher income. They may offer rewards (e.g., cash back or frequent flier miles).

Not all gold and platinum cards have the same favorable terms.

- They are sometimes referred to as high-cost cards because of the costs associated with them.
- Be sure to carefully read the *disclosures* and understand all of the associated costs before you apply for any advertised card.
- Disclosures include interest rates, grace periods, annual fees, finance charges, and other information. You will learn about these shortly.

## Rewards Cards

Other Cards	
<ul style="list-style-type: none"> <li>• Stored value cards</li> <li>• Secured and unsecured credit cards</li> <li>• Gold and platinum cards</li> <li>• Reward cards</li> <li>• Pre-approved cards</li> </ul>	<b>Tips:</b> <ul style="list-style-type: none"> <li>• Read disclosures before you apply               <ul style="list-style-type: none"> <li>– Look at fees/penalties</li> <li>– Understand your consumer protections</li> </ul> </li> <li>• Take precautions to protect yourself from fraud or theft</li> </ul>

Slide 12

Click the space bar, right arrow, or mouse to display reward cards.

Many credit cards offer the option of earning cash rebates or reward points (e.g., those offered by airline, hotel, and gas companies).

- When you use these credit cards, you earn points toward goods or services, or perhaps cash rebates. Look for a card that will earn you rewards at stores and services you use most often.
- Be aware that reward programs may change at any time and the value of your accrued points may substantially increase or diminish. For example, the number of points needed for a free airline ticket may rise from 50,000 to 65,000.
- You may be charged annual fees for reward cards. Make sure the rewards you expect to earn justify the annual fee.
- These cards may create an incentive to spend as much as you can so you earn more rewards points. Remember, unnecessary spending can result in paying interest and unmanageable debt, which can more than cancel out any rewards you would earn.

## Instructor Notes

## Presentation

Other Cards	
<ul style="list-style-type: none"> <li>• Stored value cards</li> <li>• Secured and unsecured credit cards</li> <li>• Gold and platinum cards</li> <li>• Reward cards</li> <li>• Pre-approved cards</li> </ul>	<b>Tips:</b> <ul style="list-style-type: none"> <li>• Read disclosures before you apply               <ul style="list-style-type: none"> <li>– Look at fees/penalties</li> <li>– Understand your consumer protections</li> </ul> </li> <li>• Take precautions to protect yourself from fraud or theft</li> </ul>

Slide 12

Click the space bar, right arrow, or mouse to display pre-approved cards.

## Pre-Approved Cards

How many of you have ever received pre-approved credit card offers in the mail?

These offers tell us that we have been pre-approved to receive a credit card. In actuality, this means that the credit card company offering the card has looked at your credit report and determined that you MIGHT qualify for the interest rates and credit limit being offered. Whether or not you get the best rates depends on your income, employment, and credit history.

Always read the credit agreement carefully BEFORE signing on the dotted line.

- There may be limitations or conditions that are not obvious in the advertisement. For example, credit card issuers might encourage you to transfer balances from other credit cards (balance transfers), but there might be hidden costs (e.g., transfer fees).
- Confirm what interest rates and credit limit you qualify for, ask about fees and penalties, and shop for the best possible deal.

An important factor for you to remember when you sign up for a credit card is that companies cannot increase your rate for the first 12 months after you open an account. However, there are some exceptions:

- If your card has a variable interest rate tied to an index, your rate can go up whenever the index goes up.
- If there is an introductory rate, it must be in place for at least 6 months. After that your rate can convert to the “go-to” rate the company disclosed when you got the card.
- If you are more than 60 days late in paying your bill, your rate can go up.
- If you are in a workout agreement and you do not make your payments as agreed, your rate can go up.

Before you apply for a credit card, decide how you will use it. Keep in mind that it is a loan you must repay with interest.

What questions do you have about these types of credit cards?

Now we will look at the different terms and conditions you should be aware of before you apply for a credit card.



Answer any questions. Then introduce the next topic.

**Instructor Notes**

**Presentation**

10 minutes

**Shopping for the Best Deal**

**Solicitation and Initial Truth in Lending Disclosure Statement**

**Truth in Lending Disclosure Statement**

- Required by federal law
- Must highlight rates, fees, other key terms
- Sample interest rate section of disclosure:

Annual Percentage Rate (APR) for Purchases	[Purchase rate]
APR for Balance Transfers	[Description that rate varies and how it is determined, if applicable]
APR for Cash Advances	[Cash advance rate]
Penalty APR and When It Applies	[Penalty rate]

Slide 13

**Credit Card Terms**

- When shopping for credit cards, compare:
  - Annual percentage rates (APR) for:
    - Purchases
    - Balance transfers
    - Cash advances
    - Penalty APR, and when it applies
  - Fees, such as any annual fee
  - Grace period, if there is one
  - Balance computation method

Slide 14



Refer participants to Shopping for the Best Deal on page 9 of their Participant Guide.

Federal law requires that you receive a Federal Truth in Lending Disclosure Statement from any credit card company offering you a credit card. When you receive a credit card solicitation and initial disclosures, credit card companies must highlight or disclose:

- Specific account fees
- The reason why penalty rates may be applied
- Key terms (at account opening and when terms are changed)

Be sure to read the disclosure carefully (e.g., terms, conditions, and credit transactions). Not all credit cards have the same terms and conditions. This can be confusing when you are shopping for credit cards.

The important credit card terms you should look for are:

1. APRs for:
  - Purchases
  - Balance transfers
  - Cash advances
  - Penalties
2. Fees, including:
  - Annual and other periodic monthly fees
  - Transaction fees
  - Cash advance fees
  - Balance transfer fees
  - Penalty fees
3. Grace period, if applicable
4. Balance computation method

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	<b>8.99% to 19.99%</b> when you open your account, based on your creditworthiness. After that, your APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	<b>15.99%</b> This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	<b>24.99%</b>

**Instructor Notes** **Presentation**

	This APR will vary with the market based on the Prime Rate.
<b>Penalty APR and When it Applies</b>	<b>28.99%</b> This APR may be applied to your account if you: <ul style="list-style-type: none"> <li>• Make a late payment;</li> <li>• Go over your credit limit twice in a six-month period;</li> <li>• Make a payment that is returned; or</li> <li>• Do any of the above on another account that you have with us.</li> </ul>
<b>How Long Will the Penalty APR Apply?</b>	If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due and do not exceed your credit limit during that time period.
<b>How to Avoid Paying Interest on Purchases</b>	Your due date is at least 25 days after the close of each billing cycle. We will not charge you interest on purchases if you pay your entire balance by the due date each month.
<b>Minimum Interest Charge</b>	If you are charged interest, the charge will be no less than \$1.50.
<b>Fees</b>	
<b>2</b> <b>Set-up and Maintenance Fees</b>	<ul style="list-style-type: none"> <li>Annual Fee: \$30</li> <li>Account Set-up Fee: \$30 (one-time fee)</li> <li>Participation Fee: \$30 annually (\$2.50 per month)</li> <li>Additional Card Fee: \$15 annually (if applicable)</li> <li>Account Maintenance Fee on Closed Accounts: \$30 annually (\$2.50 per month on closed accounts with an outstanding balance of \$30 or more)</li> </ul>
<b>Transaction Fees</b>	<ul style="list-style-type: none"> <li>Balance Transfer: Either \$5 or 3% of the amount of each transfer, whichever is greater (maximum fee: \$100).</li> <li>Cash Advance: Either \$5 or 3% of the amount of each cash advance, whichever is greater.</li> <li>Foreign Transaction: 2% of each transaction in U.S. dollars.</li> </ul>
<b>Penalty Fees</b>	<ul style="list-style-type: none"> <li>Late Payment: \$35 and higher</li> <li>Over-the-Credit Limit: \$40 and higher</li> <li>Returned Payment: \$35</li> </ul>
<b>Other Fees</b>	Required Account Protector Plan: \$0.79 per \$100 of balance at the end of each statement period. See back for details.
<b>4</b> <b>How we will calculate your balance:</b>	We use a method called "average daily balance (including new purchases)."
<b>Loss of introductory APR:</b>	We may end your introductory APR and apply the Penalty APR if you make a late payment.

### APR

The APR represents the cost of borrowing money on a yearly basis. It includes both the interest you are charged and fees.

- If you plan to keep a balance on your credit card account, you want to look for a low APR.
- If you expect to pay your credit card bill in full each month, it will be more important to compare the annual fee and other charges.
- Credit card companies may offer low introductory APRs (teaser rates) for a limited time to attract new customers.
- Credit card companies must include clear information on how long

**Annual Percentage Rate (APR)**

- **APR: the cost of borrowing money on a yearly basis (interest + fees)**
  - Look for a low APR
  - Compare annual fees and other charges
  - Determine how long the introductory rates will last and whether the new rate will be fixed or variable



TDC Financial Education Curriculum

Slide 15

## Instructor Notes

## Presentation

**APR Increase on Existing Balances**

- The APR on money you owe for charges you made in the past (existing balance) generally cannot be increased unless:
  - You are told about the increase when you open the account and the initial rate lasts at least 6 months
  - There is a change in an index-based rate
  - You don't satisfy a "workout arrangement"
  - You do not make the required minimum payment within 60 days of due date



Charge It Right 16

Slide 16

Explain when credit card companies can increase the APR on existing card balances.

**APR Increase on New Transactions**

- The APR that applies to new transactions generally cannot increase for a year from the date the card was issued:
  - Except if you have a variable rate card and the index increases or promotional rate expires
- Creditor must notify you 45 days in advance
- You can cancel the card before the changes take effect



Charge It Right 17

Slide 17

Explain the terms in which credit card companies can increase the APR on new transactions.

**Penalty APR**

- A penalty APR:
  - Is a permanent rate increase if you do not pay your credit card bill on time
  - May be double the regular APR
- Look for details in Truth in Lending disclosures




Charge It Right 18

these introductory rates will last.

- They cannot impose new rates until after the advertised period, which must be at least six months. That rate may be either *fixed* or *variable*.
  - *Fixed rate* means the interest rate will not change.
  - *Variable rate* means the rate can change—it can go up or down.

Some credit card companies charge a different APR depending on the type of usage. For example, rates for cash advances may be higher than rates for purchases. If you have a variable rate card, your rate could change.

- You need to be aware of how the changes could affect your **existing** balances (the money you have already borrowed on the card), and any **future** purchases.

Generally, the credit card company cannot increase the APR on your **existing** card balances except under any of these conditions:

- They inform you at the time you open the card account that they will give you a temporary rate for the first six (or more) months and then they plan to increase your rate.
- The APR for variable-rate cards changes due to a change in an index (e.g., US Treasury Securities) that the creditor cannot control.
- You neglect to satisfy a workout arrangement (a debt reduction or other concessions agreed to by you and the creditor to help repay).
- You do not make the required minimum payment within 60 days of due date.

The creditor generally cannot increase the interest rate that applies to **new** transactions for a year after the card was issued (unless there is a promotional rate).

- After a year, the creditor can raise the rate, but has to inform you 45 days before the change takes effect.
- The creditor must provide you with a 45-day advance notice of any rate increase or significant changes in account terms.
- You have the right to cancel the card before the changes take effect. You are effectively closing the account.

The terms of your credit card agreement may also provide that the creditor will permanently increase the interest rate on your credit card by a large amount if you do not pay your credit card bill on time.

- This is called the *penalty APR*.

## Instructor Notes

## Presentation

Slide 18

- Penalty APRs may be double the regular APR.
- For example, the penalty rate may apply if you are more than 60 days late. The Truth in Lending disclosures will provide details.
- If you are late and it triggers a rate increase, get current on your payments as soon as possible and then pay on time. Card issuers must reduce the penalty rate if they receive prompt payments for six months.

Now we will look at credit card fees that banks can charge.

## Fees

Check how much you will pay for:



Slide 19

- **Annual fees:** The cost of obtaining the card on an annual basis. If you have a good credit history, you can probably find a credit card that does not have an annual fee.
- **Late fees:** Fees for not making timely payments.
- **Over-the-limit fees:** A fee for borrowing more money than the bank agreed in advance to lend you (your credit limit)
- **Balance transfer fees:** Fees that are charged for transferring balances from one credit card to another. Credit card companies sometimes offer low rates to encourage you to pay off other debts with their credit card. However, they may impose significant transfer fees. Often credit card companies may charge a transfer fee that can be a percentage of the balance transferred.
- **Cash advance fees:** Fees that are charged for getting cash on your credit card from an ATM. This fee can be stated in terms of a flat per-transaction fee or a percentage of the amount of the cash advance. For example, the fee may be expressed as follows: “3%/\$10.” This means that the cash advance fee will be either 3 percent of the cash advance amount or \$10, whichever is greater. There is usually no grace period for cash advances. Interest begins accruing immediately.
- **Credit-limit increase fee:** A fee charged if you ask for and receive an increase in your credit limit.
- **Foreign transaction fee:** A fee charged for purchases made in a foreign country.

## Instructor Notes

## Presentation

**Grace Period**

- Avoid finance charges by paying your balance in full, or making the minimum payment, on or before the due date.



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Slide 20

## Grace Period

The grace period lets you avoid or minimize finance charges by paying your balance in full, or making the minimum payment, on or before the due date.

- Knowing whether a card gives you a grace period is important if you plan to pay your account in full each month.
- Without a grace period, the credit card company may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.
- All credit card companies must mail your bill at least 21 days before the due date so you will have enough time to pay and avoid finance charges.
- Keep in mind that many credit card companies never provide a grace period for cash advances or balance transfers.

## Balance Computation Method

The balance computation method is used to determine how interest on your account is calculated. There are a variety of methods. The most common method used is the Average Daily Balance.

To calculate this:

$$\frac{\text{Balance} \times \text{APR} \times \# \text{ of days in the billing cycle}}{\# \text{ of days in the calendar year}}$$

**Balance Computation Method**

Average Daily Balance is the common method used:

$$\frac{\text{Balance} \times \text{APR} \times \text{Days in Billing Cycle}}{\text{Days in Calendar Year}}$$

$$\frac{200 \times 0.10 \times 30}{365} = \$1.64$$

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Slide 21

Explain balance computation method. Then click the space bar, right arrow, or mouse to display each step in calculating Jerome's Average Daily Balance.

See if you can calculate Jerome's Average Daily Balance. He has a balance of \$200, an APR of 10 percent, and 30 days in the billing cycle. There are 365 days in the year. What is his Average Daily Balance?

$$\frac{200 \times 0.10 \times 30}{365} = \$1.64$$

Jerome's Average Daily Balance is \$1.64.

You can see how important it is to read all disclosures to make sure you understand the terms before you sign up for and accept a credit card offer.

What questions do you have about the Truth in Lending Statement or credit terms?

Now we will talk about shopping for a credit card that is right for you.



Answer any questions. Then introduce the next topic.

## Instructor Notes

## Presentation

## 10 Minutes

**Customer Service**

- **Features via telephone and Internet may allow you to:**
  - Access account information, such as balance and recent charges
  - Pay your bills online
  - Update personal information such as your address

Charge It Right 22

*Slide 22*

*Discuss customer service factors to consider when shopping for a credit card.*

**Other Key Items**

- **Be aware of:**
  - Laws that protect you against billing mistakes and unauthorized charges
  - Additional protections that credit card companies may provide (e.g., an extended warranty period on certain purchases)
- **Take time to fully understand the costs, benefits, and true coverage of "credit protection" or "debt suspension" programs**

Charge It Right 23

*Slide 23*

*Discuss protection factors to consider when shopping for a credit card.*

**Which Is the Best Card for You?****Read and Understand the Terms**

Before you apply for any credit card, it is important to read all disclosures and understand the terms. There are a lot of credit cards on the market today. Some allow you to borrow money at a reasonable rate. Others charge very high fees to get the card, and even more to use it.

**Other Factors to Consider**

There are additional factors that you should consider when shopping for a credit card:

- Customer service
- Additional protection (e.g., extended warranties)
- Credit limit

**Customer Service**

Most credit card companies offer you some customer service features via telephone and Internet, including:

- Access to account information (e.g., balance and recent charges)
- Ability to pay your bills online
- Ability to update personal information (e.g., your address)

**Additional Protection**

The law protects you against billing mistakes and unauthorized charges.

- It allows you, under certain circumstances, to withhold payment on defective goods until the problem has been corrected. However, you have to contact your card issuer promptly to exercise these rights.
- If you believe your credit card company has made a billing mistake, or you are unsatisfied with a purchase, you have certain protections for:
  - A charge for an item you did not buy
  - A purchase by a person not authorized to use your card
  - An amount on your bill that is different from the actual amount you paid
  - A charge for an item that you did not accept on delivery
  - Payments not credited to your account

Some credit cards may also offer additional protections (e.g., extending the warranty period on certain products you purchase).

## Instructor Notes

## Presentation

Credit card companies may offer to sell you additional protection (e.g., a credit protection program or what may be referred to as a debt suspension program) and impose charges for these coverages. These programs may provide coverage if you:

- Become disabled, or die
- Lose your job and are temporarily unable to pay your bills.

Oftentimes these programs allow you to skip a certain number of payments, which may be valuable at that time. However, consider the long-term effects of skipping payments as the interest may still continue to accrue. Be sure you understand how much you will be paying before accepting these offers.

Also be aware of the terms and conditions. For example, the job loss usually must be through no fault of your own, you may be required to work full-time before receiving these protections, and pre-existing conditions may not be covered. Some coverages may only make a few months of payments in the event you become unemployed.

Remember, these programs are optional. Before purchasing a credit protection product, consider if you already have, or would be better off with, traditional insurance.

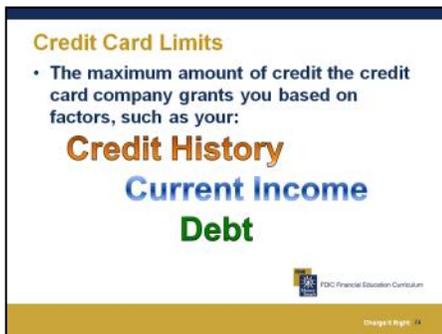
### Credit Limit

If you are approved for credit, the credit card company will set a *credit limit*.

This is the maximum amount of credit the credit card company is granting you. Each company has its own standards for determining how much of a credit limit to give you. They may take into account your:

- Credit history (whether you have been on time or late with other payments, been in bankruptcy or credit counseling, or how long you have had any credit)
- Current income
- Debt (e.g., other credit card payments, car payments, or mortgage payments)

Fees will not be imposed for making a purchase or other transactions that would put your account over the credit limit unless you “opt in” (agree) for the creditor to process over-the-limit transactions and impose a fee. Before you opt-in, understand what the fee is. Exceeding your credit limit may also lower your credit score.



Slide 24

Explain how credit limits are defined.

**Instructor Notes**

**Presentation**

**Credit Card Comparison Chart**

As you are shopping for the best credit card terms, consider using the Credit Card Comparison chart on page 11 of your Participant Guide. This tool will guide you in the questions to ask.



*Refer participants to the Credit Card Comparison Chart on page 11 of their Participant Guide.*

	Credit Card 1	Credit Card 2	Credit Card 3
Name of credit card issuer/card.			
What is the APR? <ul style="list-style-type: none"> <li>• Introductory APR?</li> <li>• Rate for purchases?</li> <li>• Rate for cash advances?</li> <li>• Penalty APR?</li> </ul>			
What are the fees? <ul style="list-style-type: none"> <li>• Annual fee</li> <li>• Late fee</li> <li>• Over-the-limit fee</li> <li>• Cash advance fee</li> <li>• Other fees?</li> </ul>			
Is there a grace period?			
Are there any benefits (reward points earned, rebates, etc.)?			
What is my credit limit?			
Other? (e.g., customer service hours; online access; access to a real person?)			

## Instructor Notes

## Presentation

**Tips to Consider When Shopping for a Credit Card**

*Refer participants to Tips to Consider When Shopping for a Credit Card on page 11 of their Participant Guide. Review the tips with participants.*



*Answer any questions. Then introduce the next topic. Note: Now may be a good time to take a short break if you have not done so.*

Before signing up for a credit card, consider these tips:

- Review online services and compare credit card companies.
- Make sure you understand the implications of fixed and variable rates and penalty APRs.
- Beware of introductory rates. You might start out with a credit card that has no annual fee for the first year, but you will be charged a fee in the second year. You might start out with a low interest rate and then find the interest rate is much higher after a few months.
- Decide how you will use the credit card and what you will purchase with it.
- Start small. Do not charge too much on your credit card until you are comfortable with the monthly bill.
- Shop around for the plan that best fits your needs. Make sure you understand the terms of the plan before you accept the card. Read the fine print.
- Beware of credit card issuers who require application fees. Most credit card issuers do not charge fees to open accounts.

What questions do you have about shopping for the best credit card deal?

Now we will discuss several considerations you should keep in mind when applying for a credit card.

## Instructor Notes

## Presentation

## 5 Minutes

**Where to Apply for a Credit Card**

Where do you think you would go to apply for a credit card?

1. Banks
2. Stores
3. The Internet
4. All of the above

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Charge It Right

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Ask participants to select an answer. Then click the mouse, space bar, or right arrow to reveal the correct answer.

## Applying for a Credit Card

## Where to Apply for a Credit Card

Where do you think you would go to apply for a credit card?

1. Banks
2. Stores
3. The Internet
4. **All of the above**

It may surprise you that you can go almost anywhere to apply for a credit card, including:

- **Retail stores:** Many department, clothing, and jewelry stores offer credit cards that can be quickly approved. Retail credit cards may have lower credit limits and higher interest rates than bank credit cards.
- **Banks:** You can find bank credit card offers at your local bank, in the newspaper, or on the Internet. Banks and other financial institutions offer both secured and unsecured credit cards with varying credit limits and rates.
- **Mail offers:** We have already seen how you can apply for credit card applications you receive in the mail. You can respond to these offers by mailing in a completed application or applying over the telephone or Internet.

## Opting Out

You have the right to opt out of receiving certain mailed credit card offers.

- You can tell the credit reporting agencies not to share your information with lenders and insurers who use the information to decide whether to send you offers of credit or insurance.
- You can opt out of receiving these prescreened offers by:
  - Calling 1-888-5-OPTOUT (567-8688)
  - Visiting [www.optoutprescreen.com](http://www.optoutprescreen.com)

**Opting Out**

- You have the right to "opt out" of receiving mailed credit card offers:
  - Call 1-888-5-OPTOUT (567-8688)
  - Visit [www.optoutprescreen.com](http://www.optoutprescreen.com)
  - Call the phone number on the offers of credit

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Charge It Right

Slide 26

Explain what it means to opt out.

## Instructor Notes

## Presentation

## Application Requirements

**Individual vs. Joint Credit**

- **Individual credit**
  - Based on your own assets, income, ability to pay, and credit history.
  - You are responsible for paying the credit card bill.
- **Joint credit:**
  - Based on the assets, income, ability to pay, and credit history of both people who apply.
  - Both applicants are responsible for the credit card bill.

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Charge It Right

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Explain the difference between individual and joint credit.

When you apply for a credit card, you are called the *credit card applicant*. The card issuer, who issues you the card, is called the *creditor*.

*Individual credit* is based on your own assets, income, ability to pay, and credit history. You are responsible for paying the credit card bill.

*Joint credit* is based on the assets, income, ability to pay, and credit history of both people who apply.

- Couples often apply for joint credit. You might obtain more credit this way.
- Both applicants are responsible for the credit card bill, no matter who makes the charges on the credit card.

Credit card applicants must be 21 years old unless the written application includes:

- Information showing that the applicant has an independent means of repaying the debt
- The signature of a cosigner over the age of 21

Keep in mind that providing false information about your income, or any other item on a credit application, is a crime called fraud and is punishable by fines or jail time.

A child or someone else you know under age 21 may ask you to cosign their application. Before doing this, remember that:

- You are liable for paying the credit card charges (including fees and interest) that are incurred by the person for whom you cosigned.
- You are putting your own finances and credit history in jeopardy when you cosign.

If you do cosign:

- Work out an agreement with your child (or other person for whom you cosign) about how the card will be used and bills managed
- Ask to receive early notice of problems, including late payments, so you can monitor the credit card and work out problems with the lender before your own credit record is damaged.
- Once the person turns 21, ask to be removed as a cosigner.

**Application Requirements**

- **Consumers under age 21 must:**
  - Have a co-signer, or
  - Prove the ability to make the payments
- **If you are a parent, be prepared for a request to co-sign.**
- **Provide accurate information on a credit application**
  - Giving false information is a crime

FEDC Financial Education Curriculum

Charge It Right

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Explain the application requirements.

## Instructor Notes

## Presentation



*Answer any questions. Then introduce the next topic.*

Another issue to be aware of is when you have an *authorized user* on the account. This is someone whom you have given the privilege to use your credit card. An authorized user has no financial responsibility to pay the bill, so you are legally responsible for paying all charges, interest, and fees if the other person does not pay the bill.

What questions do you have about applying for a credit card?

Let us review what factors creditors may consider when determining whether to issue you a credit card.

## Instructor Notes

## Presentation

20 minutes

**The Four Cs**

- **Capacity:** your present and future ability to meet your payment obligations
- **Capital:** the value of your assets and your net worth
- **Character:** how you have paid bills or debts in the past
- **Collateral:** property or assets offered to secure the loan



Charge It Right

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**Capacity**

- How long have you been in your job?
- How much money do you make each month?
- What are your monthly expenses?




Charge It Right

Slide 30

**Capital**

- How much money do you have in your checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., a car)?




Charge It Right

Slide 31

## How Credit Decisions are Made

## The Four Cs

When you apply for credit, the lender will review the Four Cs to decide whether you are a good credit risk; or in other words, whether you are likely to pay back the loan. The Four Cs are:

- **Capacity:** your present and future ability to meet your payments
- **Capital:** the value of your assets and your net worth
- **Character:** how you have paid your bills or debts in the past
- **Collateral:** property or assets offered to secure the loan

## Capacity

To determine your capacity, the lender may consider:

- **How long have you been in your job?** Generally, a lender would like to see that you have held the same job or same type of job for at least a year.
- **How much money do you make each month?**
- **What are your monthly expenses?** A bank will compare the amount you owe and your other monthly expenses with your monthly income. This is called a *debt-to-income ratio*. It helps determine how much money you can afford to borrow.

## Capital

For capital, the lender may ask:

- **How much money do you have in your checking and savings accounts?** Lenders may want to know if you can manage your money well enough to take on a loan.
- **Do you own a house?** Homeownership means you have equity, or secured savings, in case you cannot pay your credit card bill. However, homeowners also may have additional expenses.
- **Do you have investments or other assets (e.g., a car)?** Lenders want to determine the value of your assets. *Assets* are things you own that have financial value. Lenders will also compare the difference between the value of your assets and the amount of debt you have. This is called *net worth*. A positive net worth demonstrates your ability to manage your money.

## Instructor Notes

## Presentation

## Character

Regarding your character, the lender may seek answers to the following questions:

**Character**

- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever:
  - Filed for bankruptcy?
  - Had any outstanding judgments?
  - Had property repossessed or foreclosed upon?
  - Made late payments?



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- **Have you had credit in the past?** If you have a good credit history of repaying your other loans, you will have an easier time getting your loan request approved.
- **How many credit accounts do you have?** If you have never had a credit account, you may have difficulty being approved for a loan. Having a good credit history shows a lender you can borrow money responsibly.
  - Some lenders let you prove this without a credit history. For example, they might ask for proof that you pay your rent and utility and phone bills on time or that you make regular deposits to a savings account.
  - Other examples of ways to show a creditor that you are a good credit risk may include:
    - Insurance premium payments
    - Payments of medical bills
    - Payments for school tuition
    - Childcare payments
    - Payments of personal loans (documented by a written loan agreement and canceled checks)
  - Ask the lender to consider alternative forms of history. If a lender is not willing to do this, shop around for one who will.
- **Have you ever:**
  - Filed for bankruptcy?
  - Had any outstanding judgments?
  - Had property repossessed or foreclosed upon?
  - Made late payments?

If you answer *yes* to any of these questions, you will likely have more difficulty being approved for a loan. However, some lenders will ask you to explain what happened. Depending on your circumstances, a lender might be willing to approve your loan request.

- **Attachment:** A lien against personal property
- **Bankruptcy:** A legal declaration of insolvency. Bankruptcy will not fix credit record problems and will be part of your credit history for 10 years. A new law now requires that you receive credit counseling before you can file for bankruptcy.



*Be prepared to provide the following*

## Instructor Notes

definitions if students ask.  
This is optional information.

## Presentation

The law also requires you to pay a portion of your unsecured debt if you are able to.

- **Foreclosure:** A legal proceeding initiated by a creditor to take possession of collateral that secured a defaulted loan
- **Garnishment:** A process by which a lender obtains, directly from a third party (e.g., an employer), part of an employee's salary to satisfy an unpaid debt. Part of the employee's salary is taken each pay period until the debt is fully paid. This process must be authorized by a court order.
- **Judgment:** A court order requiring a debtor to pay money to the creditor. The judgment places a security lien on the debtor's property until the judgment is satisfied (the debt is repaid).
- **Lien:** A creditor's claim against property to secure repayment of a debt
- **Repossession:** Seizure of collateral that secured a loan in default

More information about credit reports is covered in the *To Your Credit* module of the *Money Smart* course.

## Collateral

To determine what collateral you have, the lender may ask:

- **Do you have assets to secure the loan beyond your capacity to pay it off?** Collateral is security you provide the lender. As we have seen, giving the lender collateral means that you pledge an asset that you own (e.g., your home) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

A cosigner is equally responsible for repaying the loan if you cannot.

Sometimes a person with no credit history will use a cosigner to get a loan.

What questions do you have about the Four Cs of Credit Decision Making?



Slide 33

Answer any questions. Note: Now may be a good time to break if you are dividing the class into two sessions.

## Instructor Notes

## Presentation



Slide 34

Write participants' responses on chart paper. Answer the question tying in participants' responses.



Slide 35

Explain what a credit report is and its purpose.



Refer participants to *Credit Case: No History, No Mystery* on page 13 of their *Participant Guide*. Have participants discuss possible options. Then reveal the answer so they can check their thinking.

## Where Creditors Look

We have discussed what information creditors look for in order to decide whether to give you a credit card, but where do you think they might find this information?

**Answer: You have to demonstrate you are a good credit risk before credit is granted. The proof is largely in your credit report. This is the main source of information creditors look at when deciding whether to give you a credit card.**

A credit report is a record of how you have paid your debts. It tells creditors:

- Who you are
- How much debt you have, including how many accounts you have, how long you have had them, and how much of your credit limit is unused
- If you do not have a credit history, some creditors will consider other factors that indicate whether you may be a good credit risk (e.g., they might ask for proof that you pay your rent, utility, and phone bills on time, or that you make regular deposits to a savings account)
- Whether you have made payments on time
- Whether there is negative information about you in public records (e.g., collection actions, bankruptcies, and judgments)
- How many inquiries are listed in your credit report. Your credit report includes a list of the creditors and other authorized parties who have requested and received your credit report. It tells creditors how often you apply for credit. Applying for new credit may make you appear to be a higher, or less desirable, credit risk.

## Credit Case: No History, No Mystery

Cathy is 25, but has never had a credit card or a loan. Her credit history is almost nonexistent, except for an inquiry by her landlord when she rented her apartment. What might a creditor do to determine if she might be a good credit risk or not?

**Answer:**

- **The creditor will look at her credit report, which includes information on any accounts she holds with banks and utility companies, to determine whether she has made payments on time.**
- **The credit report will also indicate whether Cathy has ever filed**

## Instructor Notes

**Credit Case: No History Is No Mystery**

- Meet Cathy. She:
  - Is 25
  - Has never had a credit card or a loan
  - Has no credit history except for an inquiry by her landlord when she rented her apartment
- How will a creditor decide if Cathy is good credit risk?



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Slide 36

**Credit Reporting Agencies**

- Equifax
- Experian
- TransUnion



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Slide 37

*Explain the FCRA.*

## Presentation

for bankruptcy, or has had any tax liens or monetary judgments placed against her.

- The creditor might also look at her employment history and her income compared to any debt she has. It is good that she only has one inquiry on her credit report. Too many inquiries are viewed negatively by lenders.
- All of this information may help the creditor decide whether or not to offer her any credit, and how much.
- If Cathy's lack of credit history poses a problem in her obtaining credit or a loan, she may want to look at a secured card that has no or low fees that will allow her to build a credit history. She might also consider having someone (e.g., her parents) cosign for a credit card in her name so she can begin establishing a credit history.

## Credit Reporting Agencies

Your credit report is kept on file with three major credit reporting agencies. They are:

- Equifax
- Experian
- TransUnion

Financial institutions report information about you to the credit reporting agencies, which compile this information in the form of a credit report.

Banks, in turn, ask the credit reporting agencies for this information when you apply for a credit card.

## Free Annual Credit Report

The Fair Credit Reporting Act (FCRA) requires each of the three credit reporting agencies to provide you with a free copy of your credit report, at your request, once every 12 months.

- Order your free annual credit report from [www.annualcreditreport.com](http://www.annualcreditreport.com).
- This is the only online source authorized to do so; beware of other sites that may look and sound similar.
- You may order a copy of your credit report from all three credit reporting agencies at the same time through the site, or space your requests out several months apart.
- Remember you can only receive a free credit report from each credit reporting agency once every 12 months.

## Instructor Notes

## Presentation

The Federal Trade Commission (FTC) advises consumers who order their free annual credit reports online to correctly spell

[www.annualcreditreport.com](http://www.annualcreditreport.com), or link to the site from the FTC's website.

- This is so you avoid being misdirected to other websites that may offer free reports, but only with the purchase of other products.
- While you may be offered additional products or services while on the authorized website, you are not required to make a purchase to receive free annual credit reports.

Let us review the steps involved in requesting your free credit report and the form you use to make your request.

## How to Get Your Free Annual Credit Report

You can obtain free annual credit reports from one or all of the credit reporting agencies by doing one of the following:

- Submit a request online at [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Call toll-free: 1-877-322-8228
- Complete the Annual Credit Report Request Form and mail it to:

### Annual Credit Report Request Service

**P. O. Box 105281**

**Atlanta, GA 30348-5281**



*Refer participants to the How to Get Your Free Annual Credit Report on page 14 of their Participant Guide. Review it with them.*



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You can print a copy of the Annual Credit Report Request Form from [www.annualcreditreport.com](http://www.annualcreditreport.com) or [www.ftc.gov/credit](http://www.ftc.gov/credit). You must provide:

- Your name, address, SSN, and date of birth
- You may have to provide your previous address if you have moved in the last 2 years
- For security purposes, each credit reporting agency may ask you for information that only you would know (e.g., amount of your monthly mortgage payment).
- Each company may ask for different information because the information each has in your file may come from different sources.

In addition to the one free report a year, you may also be able to obtain a free credit report if:

- Your application for credit, insurance, or employment is denied based on information in your credit report
- You are unemployed and plan to look for a job within 60 days
- You are receiving public assistance



## Instructor Notes

## Presentation

## Credit Scores

**Credit Scores**

- A number that helps lenders determine your credit risk
- **Two types:**
  - The Fair Isaac (FICO) Score
  - VantageScore

300 FICO 850  
501 Vantage Score 990

FICO Financial Education Curriculum

Charge It Right

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Explain credit score.

It has become increasingly common for lenders to make decisions largely based on credit scores. A *credit score* is:

- A number that helps lenders determine how much of a credit risk you may be
- Calculated based on information in your credit report

Creditors may use one or more credit scores. Credit scores may be generated by the creditor itself; or the creditor may use a score calculated by another firm.

**Note:** It is best to figure out which card you want before you apply for one. Otherwise, applying for more than one credit card in a short time may lower your credit score and reduce your chances of being approved.

Two of the scores used by lenders are:

- The Fair Isaac Corporation (FICO) score
- VantageScore

Your FICO score is the primary method lenders use to assess how deserving you are of their credit.

- A FICO score is calculated using a computer model that compares the information in your credit report with thousands of other customers. FICO scores range from about 300 to 850.

VantageScore is a newer credit scoring system offered by all three credit reporting agencies. You should have a similar VantageScore from each of the three agencies.

- The VantageScore ranges from 501 to 990.
- It also groups scores into letter categories covering an approximately 100-point range, just like grades you receive on a report card. For example, your credit grade would be “A” if you had 901 points or more.

## Instructor Notes

## Presentation

## What to Do if Your Request for Credit Is Denied



Refer participants to *What to Do if Your Request for Credit Is Denied* on page 16 of their Participant Guide.

**If Your Credit Request Is Denied**

- A denial notice, or adverse action notice, lists reasons for credit denial.
- Credit card companies must give you reasons why your credit was denied.
- Contact the credit bureau within 60 days of receiving the denial for a free copy of your credit report.
- Dispute any inaccuracy in your credit report.

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Charge It Right

Slide 40

Explain what to do if your request for credit is denied.



Answer any questions. Then introduce the next topic.

If your request for credit is denied, you will receive a denial notice; sometimes called an adverse action notice.

- This notice lists the reasons for denying your application.
- If you do not receive this notice or the notice does not explain why the credit was denied, ask the creditor.
- You have the right to have the credit card company give you the reasons that the credit was denied.

While each credit card issuer has its own reasons for denying credit, some reasons for denial might include:

- You have a bad credit history.
- You have not been at your current address or job long enough.
- Your income does not meet the creditor's criteria.

If you are denied credit because of information in your credit report, federal law requires the creditor to give you the name, address, and telephone number of the credit reporting agency that supplied the information.

- If you contact the credit reporting agency within 60 days of receiving the denial, you are entitled to a free copy of your credit report.
- You have a right to dispute any inaccuracy in your credit report with the credit reporting agency, and also with the company that furnished the information to the credit reporting agency.
- It is important to review your credit report from all three agencies to ensure that they have correct information.

The *Money Smart* module *Keep It Safe* has more information about your rights.

What questions do you have about credit scores?

We have talked about the characteristics of credit cards, how to apply for a card, and how much credit costs. Now we will review a credit card statement and talk about keeping good records.

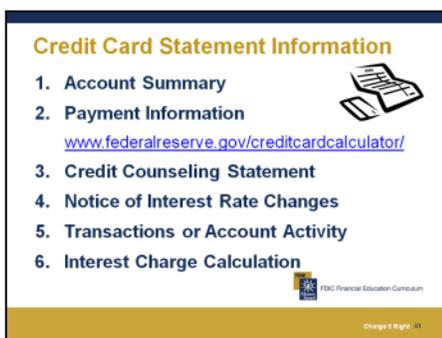
## Instructor Notes

## Presentation

5 minutes



Refer participants to *Sample Credit Card Statement* beginning on page 17 of their *Participant Guide*.



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## The Credit Card Statement

### What Information Does the Statement Include?

If you have a credit card, you will receive a monthly billing statement. Understanding the billing statement is important.

The statement lists detailed activity during the account billing cycle. The reverse side of your bill usually describes some of the basic terms of your credit card agreement, including how the interest is calculated and where to call with billing questions. Information on the statement includes the:

#### 1. Account Summary:

- **Previous Balance:** The amount you owed at the end of the previous billing period. Any payments, credits to your account, or new purchases are not included.
- **New Balance:** Your previous balance, plus any purchases, cash advances, and late fees, minus any payments and credits. If you pay your credit card bill in full each month, the new balance will be equal to your new purchases and cash advances.
- **Credit Limit:** The maximum dollar amount you can borrow on the card at one time.
- **Credit Available:** The amount of credit remaining on your card after your balance and your current charges are subtracted from your total credit line.

#### 2. Payment Information:

- **New Balance**
- **Minimum Payment Due:** The minimum dollar amount that must be paid. This may be only 3 or 4 percent of your balance.
- **Payment Due Date:** The date your payment must be received by the credit card issuer, not the date it is postmarked. The payment due date for your credit card must be on the same day each month (e.g., always on the 5th of the month). Be sure to make your payments well before the due date to avoid late charges. Also, if you are carrying a balance, be sure to make your payment as soon as you can to reduce interest charges.
- **Late Payment Warning:** An explanation of how your account will be affected if you do not make your payment on time.

Instructor Notes

Presentation

- **Minimum Payment Warning:** The monthly payment amount required to pay off the existing balance in 36 months, including the total cost (payments and interest). The Federal Reserve’s Credit Card Repayment Calculator ([www.federalreserve.gov/creditcardcalculator/](http://www.federalreserve.gov/creditcardcalculator/)) can estimate how long it will take you to pay off your credit card balance.
3. **Credit Counseling Statement:** Information for contacting a credit counseling service, if needed.
  4. **Notice of Interest Rate Changes,** if applicable
  5. **Transactions or Account Activity:**
    - **Finance Charges:** The cost of credit. It includes interest, service charges, and transaction fees for the statement period. This charge is calculated on your balance using different methods.
    - **Annual Fee and Interest Totals:** The amount you have paid in fees and interest during the current calendar year.
  6. **Interest Charge Calculation**

Sample Credit Card Statement

Account Number 1354680513

February 21, 20xx to March 22, 20xx

1

Summary of Account Activity	
Previous Balance	\$80.52
Payments	-\$50.00
Other Credits	+\$0.00
Purchases	+\$52.13
Balance Transfers	+\$0.00
Cash Advances	+\$0.00
Past Due Amount	+\$0.00
<b>Fees Charged</b>	<b>+\$37.00</b>
<b>Interest Charged</b>	<b>+\$0.00</b>
<b>New Balance</b>	<b>\$119.65</b>
Credit limit	\$2,000.00
Available credit	\$1,880.35
Statement closing date	3/22/2012
Days in billing cycle	30

2

Payment Information	
New Balance	\$119.65
Minimum Payment Due	\$10.00
Payment Due Date	4/20/12
<b>Late Payment Warning:</b> If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.	
<b>Minimum Payment Warning:</b> If you make only the minimum payment on time each month and no other amounts are added to the balance, we estimate that it will take you approximately 13 months to pay off the balance shown on this statement.	

Please send billing inquiries and correspondence to:  
PO Box XXXX, Anytown, Anystate XXXXX

QUESTIONS?

Call Customer Service 1-888-888-8888  
Lost or Stolen Credit Card 1-888-888-8888

3

If you would like information about credit counseling services, refer to [www.usdoj.gov/ust/ea/bapcpa/ccde/cc\\_approved.htm](http://www.usdoj.gov/ust/ea/bapcpa/ccde/cc_approved.htm) or call 1-202-514-4100.

4

Notice of Changes to Your Interest Rates

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:

Transactions made on or after 4/2/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.

Transactions made before 4/2/12: Current rates will continue to apply to these transactions. However, if you become more than 30 days late on your account, the Penalty APR will apply to those balances as well.

5

Transactions

Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
------------------	------------	-----------	--------------------------------------	--------

Instructor Notes	Presentation
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		Payments and Other Credits		
2340980TUH08	2/25	2/25	Pymt Thank You	\$50.00-
		Purchases		
304958VIM345	2/27	2/28	Item X Store XXX	\$45.00
0980PCJ34590	3/5	3/7	Item Y Store XXX	\$7.13
		Fees		
897263698VVO	2/23	2/23	Late Fee	\$35.00
234809RP980X	3/22	3/22	Minimum Charge	\$2.00
<b>TOTAL FEES FOR THIS PERIOD</b>				<b>\$37.00</b>
		Interest Charged		
		Interest Charge on Purchases		\$0.00
		Interest Charge on Cash Advances		\$0.00
<b>TOTAL INTEREST FOR THIS PERIOD</b>				<b>\$0.00</b>

2012 Totals Year-to-Date	
Total fees charged in 2012	\$90.14
Total interest charged in 2012	\$18.27

6

**Interest Charge Calculation**

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99% (v)	\$113.80	\$0.00
Cash Advances	21.99% (v)	\$0.00	\$0.00
Balance Transfers	0.00%	\$0.00	\$0.00

(v) = Variable Rate

## Keep Good Records

You should always keep your credit card receipts to compare them with your monthly statements.

- Be sure to check your monthly statement for mistakes. If you find a mistake, contact the credit card company right away. To be fully protected, you must report a mistake to your credit card company in writing within 60 days from the day the bill was sent to you.
- Finally, your institution might invite you to opt-out of receiving paper statements and instead receive them electronically. Before choosing this option, you should be sure that you will have ongoing Internet access in future months to receive the statements.

**Keep Good Records**

1. Keep your credit card receipts to compare with monthly statements
2. Check your monthly statement for mistakes
3. Report mistakes right away

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Explain the importance of keeping good records.



Answer any questions.

What questions do you have about the credit card statement?

Let us look at what is involved when it is time to pay your credit card bill.

## Instructor Notes

## Presentation

10 minutes

**Minimum Payment**

Which of the following is a good reason to pay more than the minimum payment due on your credit card bill?

1. It will look good on your credit history
2. You will be able to spend it again, in higher amounts
3. The credit card company will increase your limit faster
4. You can pay it off quicker and save on interest charges

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Ask participants to select an answer. Then click the mouse, space bar, or right arrow to reveal the correct answer.

## Paying Your Credit Card Bill

## Minimum Payment

With a credit card, you have to pay at least the minimum amount due each month. Credit card companies must mail or deliver your credit card statement 21 days before the bill is due. In addition:

- Your due date should be the same date each month.
- The payment cut-off time cannot be earlier than 5 p.m. on the due date.
- If your payment due date is on a weekend or holiday, you will have until the following business day to pay. For example, if the due date is Sunday the 15th, your payment will be on time if it is received by Monday the 16th before 5 p.m.

Why do you think it might be a good idea to pay more than the minimum payment due on your credit card bill?

1. It will look good on your credit history.
2. You will be able to spend it again, in higher amounts.
3. The credit card company will increase your limit faster.
4. You can pay it off quicker and save on interest charges

**Answer: #4. If you pay more than the minimum each month, you will pay it off faster and you will save money on interest charges you would have paid if you took longer to pay it off.**

## Cost of Making the Minimum Payment

Turn to page 19 of your Participant Guide to compare the two charts showing what happens when you make the minimum payment and when you pay more than the minimum payment.

Assumptions for the tables:

- APR = 18 percent (If the APR is higher, the item would be more expensive and would take longer to pay off)
- Minimum monthly payment equals greater of \$20 or 2 percent of balance
- No late payments are made
- No additional purchases are made
- Interest is calculated by applying a monthly rate to the average daily balance
- Average daily balance method is used to calculate interest



Refer participants to *Cost of Making the Minimum Payment* on page 19 of their Participant Guide.

**Instructor Notes**

**Presentation**

**Cost of Minimum Payment**

Item	Price	APR	Interest Paid	Total Paid	Total Years to Pay Off
TV	\$500	18%	\$132	\$632	3
Computer	\$1,000	18%	\$863	\$1,863	8
Furniture	\$2,500	18%	\$5,363	\$7,863	23



Charge It Right 44

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- Years are rounded to the nearest whole year
- Dollar amounts are rounded to the nearest dollar

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
<b>TV</b>	\$500	18%	\$132	\$632	3
<b>Computer</b>	\$1,000	18%	\$863	\$1,863	8
<b>Furniture</b>	\$2,500	18%	\$5,363	\$7,863	23

**Benefit of Paying More Than the Minimum Payment**

The best way to save money and avoid paying interest charges is to pay off your balance in full when you first get your bill. However, the following chart shows the benefit of paying more than the minimum payment if you cannot pay off the balance in full.

**Benefits of Exceeding the Minimum Payment**

Original Balance	APR	Monthly Payments	Total Years to Pay Off	Interest Paid	Total of Payments
\$2,500	18%	Minimum Payment (MP)	23	\$5,363	\$7,863
\$2,500	18%	MP + \$24	4	\$1,025	\$3,525
\$2,500	18%	MP + \$41	3	\$754	\$3,254



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Refer participants to *Benefits of Paying More Than the Minimum Payment* on page 19 of their Participant Guide.

Original Balance	APR	Monthly Payments	Total Years to Pay Off	Interest Paid	Total of Payments
<b>\$2,500</b>	18%	Minimum Payment (MP)	23	\$5,363	\$7,863
<b>\$2,500</b>	18%	MP + \$24	4	\$1,025	\$3,525
<b>\$2,500</b>	18%	MP + \$41	3	\$754	\$3,254

You can perform similar calculations at:

[www.federalreserve.gov/creditcardcalculator](http://www.federalreserve.gov/creditcardcalculator)

What questions do you have about the minimum payment?

Obviously, it is important to pay your credit card bill and pay it on time. Now we will talk about using a credit card responsibly and what to do if you encounter problems.



Answer any questions. Then introduce the next topic. Note: Now may be a good time to take a short break if you have not done so.

## Instructor Notes

## Presentation

**20 minutes**

*Refer participants to Tips on How to Use Your Credit Card Responsibly on page 20 of their Participant Guide.*

## Using Your Credit Card Responsibly

### Tips on Using Your Credit Card Responsibly

Once you get a credit card, start slowly with one card that has a low credit limit and use it responsibly. Starting small will help you establish a credit history and keep you from getting into debt.

Here are some other tips that will help you use your credit card responsibly:

- Check your monthly statement to verify that it accurately lists the things you bought. Call your creditor right away if you suspect errors in your statement.
- Pay off your total balance each month. If you cannot pay the total balance, try to pay more than the minimum amount.
- Pay on time to avoid late fees and to protect your credit history. If you cannot pay on time, call your creditor immediately to explain the situation. The creditor may waive the late fees or be willing to make other payment arrangements.
- Protect your credit card and account numbers to prevent unauthorized use and to minimize a potential loss or theft. Draw a line through blank spaces on charge slips so the amount cannot be changed. Put your signature or the words “See ID” on the back of your credit cards.
- Keep a record of your account numbers, expiration dates, and the phone numbers of each credit card issuer in a safe place, separate from your credit card, so that you can report a loss quickly.
- Carry only the credit cards you think you will use. Avoid making impulse purchases.
- Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit. For example, if you purchase a \$500 television with a credit card that has a 20 percent APR, it could cost you \$1,084 and could take 3 years to pay off your debt! Will you still have that television by the time you make the last payment?
- Ignore offers creditors may send you to reduce or skip payments. You will still be charged finance charges during this period.
- Read all notices and information you receive from credit card companies. It may include important changes in significant terms (e.g., interest rates).
- Read and keep all documentation pertaining to the rules that govern your account (the cardholder agreement) that the bank sends.

## Instructor Notes

## Presentation

- Ask the credit card issuer to waive the fee or lower the interest rate after you have established a good credit history.
- Limit the number of credit cards you have and monitor your credit card usage. Too many cards can make overspending tempting. Many people do not control their spending or manage their finances wisely. There are, however, good reasons to have more than one card, especially if your credit limit is not high enough on one card to cover an emergency.
- Save cash for unexpected emergencies so that you do not have to use your credit card. Many financially responsible people can become overwhelmed by expenses or reduced income triggered by a serious illness, a job loss, or some other unexpected event.
- Be careful with blank convenience checks that your credit card may mail you as a quick way to write yourself a loan. Expect to incur a transaction fee of several percent of the amount of each check. In addition, the interest rate can be much higher than the rate on your card purchases, perhaps twice as high. Even if you are offered a low interest rate initially, find out what interest rate you will pay when the introductory period is over. Most lenders also begin charging interest when the check posts to your account, even if they otherwise give you a grace period to repay your credit card purchases interest-free.



Answer any questions. Then introduce the next topic.

What questions do you have?

Now we will take a look at some examples of people who may not be using their credit cards responsibly.

### Activity 1: Houston, We Might Have Issues

Read each scenario and determine whether or not each person is using their credit card responsibly. Describe what could happen if each person continues to use their credit card as described.

#### Example 1

Maria receives a credit card bill. She gets a cash advance on another credit card to pay part of the bill. Is she using her credit cards responsibly? What could happen if she continues to use her credit card this way?

**Answer: Maria is not acting very responsibly. If she keeps borrowing money to make payments on other credit cards, she will never get out of debt and will pay very high finance charges.**



Refer participants to Activity 1: Houston, We Might Have Issues on page 21 of their Participant Guide. Complete the activity as a class or have participants work in small groups. Discuss the correct answers.

## Instructor Notes

## Presentation

**Activity 1: Houston, We Might Have Issues**

Complete Activity 1 in the Participant Guide

1. Read each scenario.
2. Determine whether the people are using their cards responsibly.
3. Describe what could happen if each person continues to use their credit card as described.



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**Example 2**

The balance on Marvin's credit card is \$2,410. His limit is \$2,500. He makes only the minimum payment (\$20 a month) and is always close to the limit on his credit card.

**Answer: Like Maria, Marvin might never get out of debt. If he keeps making just the minimum payment on his credit card bill, it will take many years to pay off and he will have high interest costs. We will discuss the cost of making just the minimum payment later in this module.**

**Example 3**

Jerome uses his credit card for convenience. He pays cash for most small purchases. He pays his credit card bill in full each month.

**Answer: Jerome is avoiding interest charges by paying the credit card bill in full each month. He is also showing responsibility by managing his credit use.**

**Example 4**

Cathy was excited to get a credit card offer in the mail. She applied for the credit card without reading the terms. When the card came, she bought several new outfits for work. When the credit card bill came, she was surprised to find additional fees charged to her account totaling \$179.

**Answer: Cathy did not read the disclosures and understand the credit card terms before she accepted the credit card. She got new clothes, but will end up paying much more for them than she wanted to (or would have) because she was not careful about what the card really offered.**

What questions do you have about the scenarios?

Now we will take a look at correcting correct credit problems.

**Tips: Correcting Credit Card Problems**

Here are some tips for correcting credit card problems:

- Reduce your expenses by paying off the balance on your highest rate loans first. These are usually your credit cards.
- Pay for future purchases using cash or a debit card linked to your checking account.
- Turn to a reputable credit counselor if you have serious problems paying off your credit card debt. This person should be able to help you for little or no cost.



*Direct participants to Tips: Correcting Credit Card Problems on page 22 of their Participant Guide.*

## Instructor Notes

## Presentation

- Beware of *debt consolidation loans*. These are loans that you get in order to help pay off what you owe on several credit cards. They can be either secured loans (e.g., home equity loans) or unsecured loans that you promise to repay.
  - Look for hidden charges and ask for references before signing the agreement.
  - Choosing the wrong debt consolidation loan can make matters worse and put you further into debt. Shop around so that you have a way of deciding on the debt consolidation loan that best meets your needs and budget. Research different lenders and collect quotes before deciding.
- Beware of debt settlement companies that charge high rates and application fees.
- Use bankruptcy only as a last resort.



Answer any questions. Then introduce the next topic.

The *Financial Recovery* and *To Your Credit* modules have detailed information about credit counseling and debt management.

What questions do you have about using your credit card responsibly?

Now we will take a look at what you should do if your credit card is lost or stolen.

## What to Do if Your Credit Card is Lost or Stolen

If your credit card is lost or stolen, immediately tell your credit card company. Do the same thing if you spot something wrong in your monthly billing. Also:

- Never give your confidential personal information over the telephone unless you have made the call.
- If you contact your card company before any unauthorized charges are made, you are not responsible for any unauthorized charges.
- Under federal law, if a thief uses your credit card or card number, the most you are liable for is \$50 per card if you notify the credit card company immediately.

You have certain rights as a credit card consumer.

- If you think you are a victim of credit card fraud, immediately contact your credit card issuer.
- There are other organizations you can contact for more information. One organization is the FTC, which is listed in the *For Further*



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Direct participants to *What to Do if Your Credit Card is Lost or Stolen* on page 22 of their *Participant Guide*.

Explain what to do if a credit card is lost or stolen.

## Instructor Notes

## Presentation

*Information* section of your Participant Guide.

The *Keep It Safe* module has more information about your rights as a credit card user.



*Answer any questions.*

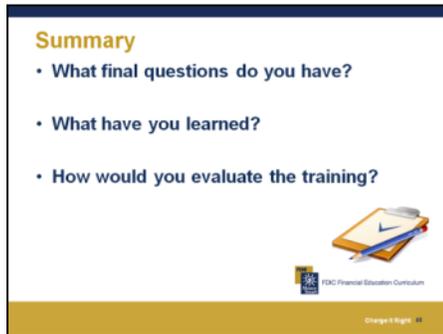
Do you have any questions about what to do if your credit card is lost or stolen?

Let us look at what we have learned today.

## Instructor Notes

## Presentation

## 15 minutes



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Answer any final questions. Have participants complete the *Post-Test* and/or *What Do You Know?* form along with the evaluation form.



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Review what was covered in the module and ensure participants' expectations, questions, and concerns have all been covered.

## Wrap-Up

## Summary

We have covered a lot of information today about credit cards. What final questions do you have?

Now we will see what you have learned by completing [a short *Post-Test* beginning on page 23 of your *Participant Guide* and/or the "After the Training" column of the *What Do You Know?* form that you completed earlier].

Who would like to share one thing they learned from this training?

To improve the training, we need your feedback. Please complete the Evaluation Form on pages 28 and 29 of your *Participant Guide*.

.

## Conclusion

Congratulations! You have completed the *Charge It Right* module. You learned about:

- The characteristics of credit cards
- Other cards that are similar to credit cards
- The different types of credit cards
- How to shop for the best credit card terms
- How to apply for a credit card
- How to use a credit card responsibly
- How to pay your credit card bill

You should now be able to use credit cards responsibly. Great job on completing the *Charge It Right* module! Thank you for participating.

## Post-Test

Now that you have gone through the course, see what you have learned.

1. What are some important factors to look for and compare when shopping for a credit card?
  - a. Annual percentage rate
  - b. Grace period
  - c. Fees
  - d. Method for calculating interest
  - e. All of the above**
2. What is the difference between a debit card and credit card?
  - a. When you use a credit card the money comes directly from your checking account, but with a debit card you can pay later
  - b. When you use a debit card the money comes directly from your checking account, but with a credit card you can pay later**
  - c. Carrying a balance on a debit card usually means you pay some interest
  - d. Credit cards are linked to your checking or savings account
3. Credit is defined as the ability to borrow money with the promise to pay back the money plus interest.
  - a. True**
  - b. False
4. Which of the following are benefits of having a credit card?
  - a. It allows you to make a large purchase (e.g., car or house) and pay for it over time
  - b. It is can be useful in times of emergencies
  - c. It is more convenient and safer than carrying large amounts of cash
  - d. All of the above**
5. All of the following are benefits of stored value cards EXCEPT:
  - a. They may have high monthly and inactivity fees**
  - b. They offer the ability to make purchases using credit card networks
  - c. You can use the card to give yourself a budget for a trip
  - d. They are one way to give a gift or pay an allowance to a child
6. Lenders will review the Four Cs to determine whether you are a good credit risk. Which of the following refers to the value of your assets and your net worth?
  - a. Capacity
  - b. Capital**
  - c. Character
  - d. Collateral

7. Select all that apply. What can you do to manage your credit responsibly?
  - a. Pay your monthly bill on time or contact your creditor immediately if you cannot pay**
  - b. Try to pay more than the minimum monthly payment**
  - c. Use credit to purchase items you want but do not have the cash for
  - d. Verify the charges listed on your monthly statement and correct any errors right away**
  
8. Which of the following are examples of using your credit card responsibly?
  - a. Protecting your credit card and account numbers to prevent unauthorized use
  - b. Charging items when you cannot afford the monthly payment
  - c. Paying interest on items when you could have waited and paid for them with cash
  - d. Knowing the terms of your credit card
  - e. a and d**
  
9. If your credit card is lost or stolen you should immediately call the credit card company or card issuer.
  - a. True**
  - b. False
  
10. What should you know about the APR on a credit card?
  - a. What the amount is
  - b. Whether the rate is an introductory rate and will change after a period of time
  - c. Whether the rate is fixed or variable
  - d. All of the above**

# What Do You Know? – Charge It Right

Instructor: \_\_\_\_\_ Date: \_\_\_\_\_

This form will allow you and the instructors to see what you know about credit cards both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before the Training				After the Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
I can:								
1. Define credit	1	2	3	4	1	2	3	4
2. Explain why credit is important	1	2	3	4	1	2	3	4
3. Identify the factors creditors look for when making credit decisions	1	2	3	4	1	2	3	4
4. Describe the purpose of credit cards	1	2	3	4	1	2	3	4
5. Determine if I am ready to apply for a credit card	1	2	3	4	1	2	3	4
6. Determine which credit card is best suited for me	1	2	3	4	1	2	3	4
7. Describe how to use a credit card responsibly	1	2	3	4	1	2	3	4
8. Identify the steps to take when a credit card is lost or stolen	1	2	3	4	1	2	3	4

# Evaluation Form

This evaluation will enable you to assess your observations of the *Charge It Right* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

1. Overall, I felt the module was: <input type="checkbox"/> Excellent <input type="checkbox"/> Very Good <input type="checkbox"/> Good <input type="checkbox"/> Fair <input type="checkbox"/> Poor	<b>Strongly Disagree</b> <b>Disagree</b> <b>Neutral</b> <b>Agree</b> <b>Strongly Agree</b>				
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The overheads were clear.	1	2	3	4	5
5. The overheads enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The module included sufficient examples and exercises so that I will be able to apply these new skills.	1	2	3	4	5
8. The instructor was knowledgeable and well prepared.	1	2	3	4	5
9. The worksheets are valuable.	1	2	3	4	5
10. I will use the worksheets again.	1	2	3	4	5
11. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5
	<b>None</b>		<b>Advanced</b>		
12. My knowledge/skill level of the subject matter before taking the module.	1	2	3	4	5
13. My knowledge/skill level of the subject matter upon completion of the module.	1	2	3	4	5
14. Name of Instructor:   Instructor Rating: Please use the response scale and circle the appropriate number.	<b>Response Scale:</b> <b>5 Excellent</b> <b>4 Very Good</b> <b>3 Good</b> <b>2 Fair</b> <b>1 Poor</b>				
Objectives were clear & attainable	1	2	3	4	5
Made the subject understandable	1	2	3	4	5
Encouraged questions	1	2	3	4	5
Had technical knowledge	1	2	3	4	5

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What was the most useful part of the training?

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What was the least useful part of the training and how could it be improved?

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# Glossary

**Annual Percentage Rate (APR):** The rate of interest you are charged, expressed as a yearly rate.

**Balance Computation Method:** A method for calculating interest. The most common is the average daily balance.

**Credit:** The ability to borrow money.

**Credit Report:** A full history of information within a consumer's credit file at the credit reporting agencies.

**Credit Score:** A numerical estimation of the likelihood that the consumer will meet his or her debt obligation(s).

**Fees:** Service charges from a financial institution, including:

- **Annual fee.** A fee, charged annually, for the privilege of using a credit card. Most cards that offer rewards (for example, airline miles or travel awards) charge a yearly fee.
- **Balance transfer fee.** A fee for moving balances from one credit card to another. This fee is usually a percentage of the balance transferred. It might have a minimum and a maximum limit.
- **Cash advance fee.** A transaction fee charged when you access cash through an Automated Teller Machine (ATM) with your credit card. The advance often carries a higher interest rate than regular purchases, and there usually is no grace period.
- **Late fee.** A fee you incur if payment is received after the due date. A typical charge is \$29 per late payment.
- **Over-the-limit fee.** A fee applied if your outstanding charges exceed your credit limit. The fee is typically \$20.

**Finance Charge:** The cost of credit. It includes interest, service charges, and transaction fees.

**Grace Period:** The number of days you have to pay your balance before a creditor begins charging interest.

**Identity Theft:** A fraud committed or attempted using the identifying information of another person without authority.

**Interest:** The amount of money a financial institution charges for letting you use its money.

**Minimum Payment:** The minimum payment is the minimum dollar amount that must be paid each month.

**Opt Out:** To opt out of receiving mailed credit card offers, call 1-888-5-OPTOUT (567-8688) or visit [www.optoutprescreen.com](http://www.optoutprescreen.com).

**Periodic Rate:** An interest rate applied to your balance to calculate the finance charge.

**Previous Balance:** The amount you owe at the end of the previous billing period. Payments, credit, and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

**Principal:** The total dollar amount of purchases made on a credit card, or the balance remaining on a loan, not including interest or other fees.

## For Further Information

### Federal Deposit Insurance Corporation (FDIC)

[www.fdic.gov/consumer](http://www.fdic.gov/consumer)

Division of Supervision & Consumer Protection

2345 Grand Boulevard, Suite 1200

Kansas City, Missouri 64108

1-877-ASK-FDIC (275-3342)

Email: [consumeralerts@fdic.gov](mailto:consumeralerts@fdic.gov)

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

### U.S. Financial Literacy and Education Commission

[www.mymoney.gov](http://www.mymoney.gov)

1-888-My-Money (696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education.

Whether you are planning to buy a home, balance your checkbook, or invest in your 401k, the resources on MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

### Federal Trade Commission

[www.ftc.gov/privacy](http://www.ftc.gov/privacy)

1-877-FTC-HELP (382-4357)

The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.

### National Foundation for Credit Counseling (NFCC)

[www.nfcc.org](http://www.nfcc.org)

1-800-388-2227

The NFCC's member agencies provide individual, confidential counseling by professional Certified Consumer Credit Counselors in-person, by phone, or over the Internet.